



Committee report

Committee	CABINET
Date	12 JULY 2018
Title	HIGHWAYS PFI SAVINGS ARRANGEMENTS
Report to	CABINET MEMBER FOR INFRASTRUCTURE AND TRANSPORT

EXECUTIVE SUMMARY

1. In 2013, the Council entered into a 25 year long highway improvement partnership (Private Finance Initiative (PFI) contract) for the maintenance and upgrade of the Island's public maintainable highways. This contract forms an important part of the Council's wider Highway Improvement Programme. The Administration's assessment is that although there is always room for further improvement in the fulfilment of major contracts of this kind, the project is progressing well and delivering real and demonstrable improvements to the Island's highways network and a substantial boost to the Island's economy; as well as improving the experience of motorists, cyclists, walkers, and all who use the Islands roads.
2. In the budget report for 2018/19 Full Council approved a budget which forecast that in the three year period 2019/20 to 2021/22 a further £16.5 million of savings will need to be identified. The highways improvement partnership is an area where savings are being considered and the Council is now seeking to make financial savings in excess of £2 million each year from this contract without significantly impacting the integrity of the contract. This would deliver significant savings for the remaining 20 years of the contract – providing for the opportunity of circa £50 million of savings in total.
3. To ensure that a savings programme is developed quickly and a programme for delivery is implemented the Council has commissioned Jasmine Consulting (UK) Limited to provide additional interim support to the contract management team, whilst a process for securing longer term support is completed. Longer term support would be secured through an open procurement process.
4. Jasmine Consulting (UK) Limited's close involvement with the content of the contract places it in a good position to start the savings process according to the timetable for savings approved in the Council's 2018/19 Budget and therefore maximise benefits to the Council.

BACKGROUND

5. The council's wider Highways Improvement Programme aims to improve transport connectivity on Island. The Highway Improvement Partnership itself is funded through government grant worth £260 million.
6. Island Roads have completed the fifth year of the Highways Improvement Partnership the aim of which is to bring our roads and footways up to specified standards. So far:
 - approximately 400 kilometres of highway have been resurfaced and/or rebuilt;
 - the street lighting network has been updated;
 - major engineering schemes have been undertaken on stretches of road;
 - parking machines have been replaced;
 - schemes to mitigate highway flooding put in place; and
 - street furniture, traffic signals, and many other network assets such as bridges and viaducts have been replaced.
7. The partnership also provides the council with financial certainty in relation to road defects in that highway risk sits with Island Roads. This includes the risks associated with potholes, including claims of damages. Financial risk associated with indexation remains with the Council (i.e. if inflation is higher / lower than that contained within the financial model those additional costs / savings rest with the Council).
8. In addition to undertaking road maintenance and improvement the partnership brings the additional local economic benefit, with Island Roads having a supply chain that consists of a number of Island companies, boosting the Island's economy with an estimated £54 million to date.
9. As set out in the executive summary the Highways Improvement Partnership is an area of activity from which the Council is seeking to delivery over 10% of the £16.5 million of savings that it will need to find in the next three years. The identification of savings needs to be undertaken quickly in order to maximise financial benefit to the Council. It will also need to be undertaken in the context of ensuring that neither the integrity of the partnership nor the wider economic benefit of the partnership is undermined.
10. The Contract Management Team (CMT) are fully engaged in managing the delivery of the work of the partnership, with additional capacity needed to focus on the identification of potential savings.
11. Earlier this year the National Audit Office in its report on [PFI1 and PFI2](#) acknowledged that public bodies do need to ensure that they have access to support staff with the appropriate skills, capabilities and expertise to effectively manage and identify savings from complex contracts.

12. As an interim arrangement to ensure that work on savings commences in a timely manner the Council has commissioned expert consultancy support, the focus of which is:
 - a) Managing a joint Savings Programme with the Service Provider and progressing its delivery towards achieving the savings target in excess of £2 million per annum;
 - b) Supporting the refinancing of the debt by managing the contractual risks and progressing negotiations to achieve the best possible financial deal for the Council;
 - c) Keeping the sponsor, the Department for Transport, informed and engaged in the Savings Programme and the refinancing process;
13. The Council commissioned a piece of work earlier this year to investigate the potential for savings. This work was undertaken by Jasmine Consulting (UK) Limited and this discovery work led to the £2 million savings being a confirmed possibility.
14. In parallel with this work and to ensure that there remains sufficient capacity to put in place and deliver a savings programme, support is requested to undertake a fully compliant procurement process in line with EU regulations and the Council's Contract Standing Orders to appoint longer term support for CMT.
15. Commissioning additional support will enable CMT to continue undertake their function of managing the contract on behalf of the council and will allow the team to focus on specific projects that add value to the Council's wider Highway Improvement Programme, e.g. developing a programme of local highway schemes.

STRATEGIC CONTEXT

16. Transport connectivity is a key outcome for the Council's [Corporate Plan](#). Ensuring accessibility both on Island and to and from the mainland is crucial to realising the council's plans for regeneration and growth. The Highways Improvement Partnership ensures that the Island's roads are maintained, improved and enhanced.

CONSULTATION

17. Neither the appointment of interim consultancy support nor the procurement process requires formal consultation. The relevant cabinet member and Leader of the council have agreed the appointment of interim consultancy support.

FINANCIAL / BUDGET IMPLICATIONS

18. The value of the interim contract is £70,000. The total value of the consultant support yet to be procured will be in the region of £200,000.
19. As set out in the Executive Summary the Council needs to identify a further £16.5m of savings over the next three years from 2019-20 to 2021-22. The funding for this savings delivery programme will be made available from the

council's Transformation Fund which is available for invest to save schemes such as this that will help deliver some £2 million savings per annum towards the council's savings requirement and £50m cumulatively over the contract period.

LEGAL IMPLICATIONS

20. The appointment of Jasmine Consulting (UK) Limited to undertake consultancy support for the Council's Highways PFI Contract Management Team, was approved by the Council's Procurement Board by way of a waiver from the requirements of Contract Standing Orders, the justification for the granting of the waiver being for reason of sole source of supply and reasons of compatibility.

EQUALITY AND DIVERSITY

21. The Council as a public body is required to meet its statutory obligations under the Equality Act 2010 to have due regard to eliminate unlawful discrimination, promote equal opportunities between people from different groups and to foster good relations between people who share a protected characteristic and people who do not share it. The protected characteristics are: age, disability, gender reassignment, marriage and civil partnership, pregnancy and maternity, race, religion or belief, sex and sexual orientation.
22. The recommendations in this report do not negatively impact people with any of the protected characteristics listed in para 15.

OPTIONS

23. Option 1: To confirm the interim appointment of Jasmine Consulting (UK) Limited to commence work on the savings programme.
24. Option 2: To agree the commencement of an EU regulation and CSO compliant procurement process for support to deliver the savings programme.
25. Option 3: Not to undertake an EU regulation and CSO procurement process for support to deliver the savings programme.

RISK MANAGEMENT

26. Whilst this approach is set out in the national context of an improving economy, public finances will remain constrained until at least 2021/22. Funding reductions in local government are at unprecedented levels and simultaneously the Council has also experienced accelerating costs, associated particularly with essential care services such as Adult Social Care and Children's Social Care.
27. In response to this the Council approved a Medium Term Financial Strategy (MTFS) in October 2016 which is based upon the Council maximising the deployment of its resources towards driving additional income/funding cost savings to secure Council Services for the future.

28. This financial challenge is seen as the single biggest risk to sustainable public services on the Island and accordingly activity to support identifying and achieving savings is crucial for the council. Inevitably there are a number of financial risks for the council and this strategy to commission support to identify potential savings from the highway improvement partnership provides both structure and direction to achieve this element of the Council's wider savings agenda in a way that is aligned with the Council's corporate objectives.
29. In managing its financial risk in this way the Council is taking a prudent and proactive approach to minimise cuts to other essential services.
30. If a decision is taken not to commission support for the highways improvement savings programme the risk is that the council will be embarking on activity that will not conform with its MTFS. As a consequence there would be an consequent higher risk that the Council's approach to cost savings would be disorderly and sub-optimal decisions taken which could lead to greater than necessary cuts to other essential services.

EVALUATION

31. Options 1 and 2 are recommended. The approach to identifying savings set out within this report are part of a comprehensive approach to delivery of the MTFS and is consistent with the Council's corporate plan in that it:
 - Enables the Council to have the operational support that it needs to implement initiatives at pace.
 - Provides a strategy for identifying savings, giving a degree of stability for services on the Island which could otherwise be put at risk.
 - Improves the overall financial resilience of the Council.

RECOMMENDATIONS

32. Option 1: To confirm the interim appointment of Jasmine Consulting (UK) Limited to commence work on the savings programme.
33. Option 2: To agree the commencement of an EU regulation and CSO compliant procurement process for support to deliver the savings programme.

BACKGROUND PAPERS

34. [2018-2019 Budget and Council Tax Setting and Future Years Forecasts](#), Full Council, 20/02/2018.

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